LOS ANGELES COUNTY
AUDITOR-CONTROLLER

John Naimo	Arlene Barrera	Peter Hughes	Robert Smythe
AUDITOR-CONTROLLER	CHIEF DEPUTY	ASSISTANT AUDITOR-CONTROLLER	DIVISION CHIEF

AUDIT DIVISION

November 21, 2017

Chief Executive Office
COUNTY LEASING REVIEW

NUMBER OF RECOMMENDATIONS

PRIORITY 1
1
CORRECTIVE ACTION REQUIRED WITHIN 90 DAYS

PRIORITY 2
5
CORRECTIVE ACTION REQUIRED WITHIN 120 DAYS

PRIORITY 3
5
CORRECTIVE ACTION REQUIRED WITHIN 180 DAYS

REPORT #K16EO

LOS ANGELES COUNTY AUDITOR-CONTROLLER

John Naimo	Arlene Barrera	Peter Hughes	Robert Smythe
AUDITOR-CONTROLLER	CHIEF DEPUTY	ASSISTANT AUDITOR-CONTROLLER	DIVISION CHIEF

AUDIT DIVISION **November 21, 2017**

FACT SHEET

Chief Executive Office (CEO)
COUNTY LEASING REVIEW

With the support, insights, and active participation of the CEO's Real Estate Division, we have completed a review of the CEO's procedures over establishing operating expenditure lease agreements, property management and monitoring, lease payments, and early lease terminations to determine whether they provide reasonable assurance to management that procedures in place are appropriate and in accordance with federal, State, and County policies and procedures, and best practices.

Key Outcomes

We noted various opportunities to improve and strengthen the CEO's procedures and operational oversight over their leases, which management has agreed to strengthen and have proactively acted to correct. We will assess and report on their implementation of our recommendations in our planned future follow-up review. For example:

- The CEO will implement a process to track and monitor lease contract budgets that will ensure lease payments do not exceed the amount of the contract approved by the Board of Supervisors (Board).
- The CEO will implement a process to review invoices for tenant improvements that will ensure amounts billed are accurate and that goods and services are received prior to making payment.
- The CEO will develop a document retention policy specifying which documents must be retained, the retention period, and standard filing methods and storage protocols that will ensure records are standardized and available for timely and reliable retrieval.

Impact

These enhancements will provide greater assurance that payments for leases do not exceed the Board approved authority and are for appropriate expenditures, and that documents will be standardized and retrievable for staff, management, and audit purposes.

FAST FACTS

The CEO is responsible for the administration of commercial leases for the County. As of June 30, 2017, the CEO managed approximately 400 active operating leases within the County with annual lease payments totaling approximately $208.1 million.

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ACIS — Audit, Contract Monitoring, Investigation, Services

This report is also available online at auditor.lacounty.gov
Report Waste, Fraud, and Abuse: fraud.lacounty.gov

For questions regarding the contents of this report, please contact Robert Smythe, Audit Division Chief, at rsmythe@auditor.lacounty.gov or (213) 253-0100.

REPORT #K16EO

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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JOHN NAIMO
AUDITOR-CONTROLLER

November 21, 2017

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Hilda L. Solis
Supervisor Sheila Kuehl
Supervisor Janice Hahn
Supervisor Kathryn Barger

FROM: John Naimo John Naimo
Auditor-Controller

SUBJECT: **CHIEF EXECUTIVE OFFICE - COUNTY LEASING REVIEW**

We have completed a review of the Chief Executive Office's Real Estate Division's (CEO) procedures and controls over their lease monitoring and operations. Details of our findings and recommendations for corrective action are included in Attachment I.

We conducted our review in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Scope and Objectives

We reviewed the design of the CEO's leasing procedures and controls to determine whether they provide reasonable assurance to management that leases are planned and approved according to County needs and policies, property management issues are addressed and monitored, lease payments are appropriately approved and accurate, and that early lease terminations are processed as required by lease contracts. Our review included interviewing CEO management and staff, and reviewing procedures and controls, to ensure that procedures in place are appropriate and in accordance with federal, State, and County policies and procedures, and best practices.

What Prompted the Review

We reviewed the CEO's procedures over lease agreements in accordance with our annual audit plan.

Process Overview

The CEO is responsible for the administration of commercial leases for the County. County departments submit requests to the CEO to lease space. If approved by CEO management, the CEO's leasing agents search the County for potential locations in conjunction with the requesting department. Once a suitable location is found and approved, the CEO's leasing agents negotiate terms with the landlord and subsequently obtain Board of Supervisors (Board) approval and commence construction (i.e., tenant improvements, etc.), if necessary. During the term of the lease, the CEO is responsible for approving payments to landlords and for administration of any property management issues (e.g., recurring maintenance issues, etc.).

Risks and Opportunities

As of June 30, 2017, the CEO managed approximately 400 active operating leases within the County with annual lease payments totaling approximately $208.1 million, which is a critical function that helps ensure County services operate without interruption. It is vital that the CEO establish and manage operating leases in compliance with federal, State, and County policies and procedures.

Scope Exclusions

Our review was limited to an evaluation of the CEO's procedures and controls over their lease monitoring and operations in the specific areas noted in the Scope and Objectives section above. We did not review leases in which the County is the owner and lessor. As noted further below, ensuring controls are operating as designed and in compliance with County policies is the Department management's responsibility.

Review of Report

We discussed our report with CEO management. The Department's attached response (Attachment II) indicates **general agreement** with our findings and recommendations.

Follow-up Process

The Auditor-Controller (A-C) has a follow-up process designed to provide assurance to the Board that departments are taking appropriate and timely corrective action to address audit recommendations. Within six months of the date of an audit report, departments must submit a Corrective Action Implementation Report (CAiR) detailing the corrective action taken to address all recommendations in the report. Departments must also submit documentation with the CAiR that demonstrates the corrective action taken. We will review departments' reported corrective action and supporting documentation, and report the results to the Board. For any recommendations not fully implemented, departments must report the status of corrective action within six months after our first follow-up report is issued.

Management's Responsibility for Internal Controls

Management of each County department is primarily responsible for designing, implementing, and maintaining a system of internal controls that provides reasonable assurance that important departmental and County objectives are being achieved. Internal controls should sustain and improve departmental performance, adapt to changing priorities and operating environments, reduce risks to acceptable levels, and support sound decision-making.

Management must monitor internal controls on an ongoing basis to ensure that any weaknesses or non-compliance are promptly identified and corrected. The A-C's role is to assist management by performing periodic assessments of the effectiveness of the department's internal control systems. These assessments complement, but do not in any way replace, management's responsibilities over internal controls.

Limitations of Internal Controls

Any system of internal controls, however well designed, has limitations. As a result, internal controls provide reasonable but not absolute assurance that an organization's goals and objectives will be achieved. Some examples of limitations include errors, circumvention of controls by collusion, management override of controls, and poor judgment. In addition, there is a risk that internal controls may become inadequate due to changes in the organization, such as reduction in staffing or lapses in compliance.

We thank CEO management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:JU

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Public Information Office
Audit Committee

CHIEF EXECUTIVE OFFICE COUNTY LEASING REVIEW

RESULTS OF REVIEW

We noted the Chief Executive Office's (CEO) controls/processes for monthly base lease payments are appropriately designed to ensure payments are accurate and approved. However, we noted various opportunities to improve and strengthen the CEO's operational oversight and leasing controls/processes, including those impacting budgets for tenant improvements, attachments to Board of Supervisors (Board) letters when obtaining approval for leases, and document control. Our findings and recommendations for corrective action are listed below.

FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

	ISSUE	RISK	RECOMMENDATION	P[1]	SUMMARY OF RESPONSE
1	**Tenant Improvement Budgets:** The CEO does not have procedures in place to track tenant improvement budgets against payments to ensure that payments do not exceed Board authorized amounts.	▪ Increased likelihood that payments will exceed the approved budgets without being prevented or detected.	**CEO management implement procedures to track lease contract budgets and ensure staff do not exceed Board approved budgets, including budgets for tenant improvements, and obtain Board approval for additional costs that exceed existing budgets.**	1	**Agree** Target Implementation Date: December 29, 2017 On July 28, 2017, CEO implemented a standard process for tracking budgets and costs. CEO will also formalize this process with written procedures that will include standardized forms, approval levels, and review milestones.
2	**Contract Costs and Maximums:** The contract costs and maximums are not always clearly delineated in Board letters when the CEO requests Board approval.	▪ Increased risk of exceeding the approved maximum.	**CEO management develop a lease and tenant improvement cost fact sheet identifying and delineating all costs and maximums, and include the fact sheet with the Board letter when requesting Board approval.**	2	**Agree** Implementation Date: August 1, 2017 CEO amended the existing "Overview of the Proposed Lease Costs" to identify costs and maximums for leases and tenant improvements.

[1] **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment III for definitions of priority rankings.

FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	**RISK**	**RECOMMENDATION**	**P[1]**	**SUMMARY OF RESPONSE**
3	**Tenant Improvement Payments:** The CEO does not have procedures in place to verify that the amounts charged by contractors are accurate and that the goods and services are received.	▪ Increased risk of paying for goods and services that are not received.	**CEO management ensure the amounts billed by contractors for tenant improvements are accurate and that the goods and services were received prior to approving payment.**	2	**Agree** Target Implementation Date: December 29, 2017 CEO will begin using project managers to work with the leasing agent, space planner, and landlord to oversee the tenant improvement construction process, and to confirm the amounts are accurate and goods and services were received prior to payment.
4	**County Asset Management Property System:** The CEO does not fully utilize the County Asset Management Property System (CAMPS), which performs functions related to leases, such as tracking commercial lease information (e.g., size of leased spaces and lease terms) and producing reports for management review. For example, the Lease Acquisition Section tracks the acquisition process (e.g., location search, etc.) manually, and each agent tracks their own tasks. However, CAMPS has the functionality to centrally track potential locations identified, the reasons for selecting the final location, etc. CAMPS can also produce reports, such as a list of current leases, that allows CEO management to better manage the leasing function.	▪ Increased risk of errors since it requires multiple instances of data entry, and diminished effectiveness of CAMPS tracking features.	**CEO management train and require staff to enter all required lease information into the County Asset Management Property System and utilize its functions.**	2	**Agree** Target Implementation Date: December 15, 2017 On August 8, 2017, CEO assigned a specific individual to be responsible for inputting information into CAMPS. By December 15, 2017, training will be provided to staff as to how data will be inputted into CAMPS and to ensure the appropriate agent reviews and confirms that all data was inputted correctly.

[1] **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment III for definitions of priority rankings.

FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P[1]	SUMMARY OF RESPONSE
5	**Document Retention:** The CEO required extensive and labor intensive research to locate documentation associated with Board letters and proposed lease agreements (e.g., forms, approvals, and offer responses), and with property management oversight (e.g., tenant property issues and resolutions).	▪ Decreased management ability to properly monitor their operations, including the ability to provide historical accountability for lease negotiations and approvals, and confirmation and accountability for compliance with lease requirements as evidenced by the written record.	**CEO management develop a document retention policy for the Real Estate Division specifying which documents must be retained, the retention period, and standard filing methods and storage protocols that enable timely and reliable document retrieval.**	2	**Agree** Target Implementation Date: December 29, 2017 CEO reaffirmed the existing County record retention policy with staff on August 9, 2017. On October 10, 2017, CEO developed and implemented a checklist to ensure agents retain the appropriate documents. By December 29, 2017, CEO will develop their own record retention policy.
6	**Centralized Electronic System:** In conjunction with Issue 5 above, the CEO maintains some documents electronically, but many documents are maintained only in hard copy format. In addition, hard copy documentation is not maintained centrally.	▪ Increased risk of misplacing or losing important documents necessary to comply with lease requirements and County and departmental policies.	**CEO management develop a centralized electronic system to implement their document retention policy.**	2	**Agree** Target Implementation Date: December 31, 2017 CEO plans to implement a departmentwide centralized document management system by Fall 2018. However, by December 31, 2017, CEO will institute changes to simplify and standardize the organization of electronic files for real estate documents in the interim.

[1] **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment III for definitions of priority rankings.

FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	**RISK**	**RECOMMENDATION**	**P[1]**	**SUMMARY OF RESPONSE**
7	**Property Management Oversight:** The CEO does not have procedures in place for the Property Management Section to track the issues received by tenant departments and does not maintain documentation of the outcomes.	▪ Increased risk that issues are not resolved timely, and reduced management's ability to monitor the Property Management Section.	**CEO management ensure the Property Management Section tracks all incoming property management issues, and the eventual outcome of each issue, and include property management as part of their overall document retention policy.**	**3**	**Agree** Target Implementation Date: December 29, 2017 CEO implemented a central e-mail address as a depository for all property management requests. By December 29, 2017, CEO will include property management as part of the document retention policy referenced in Recommendation 5 above.
8	**Space Request Evaluations (SRE):** The CEO does not have procedures in place to ensure that tenant departments submit a completed SRE form as part of the lease acquisition process, which is to indicate the tenant department's needs (e.g., number of employees and geographical region).	▪ Reduced clarity of the tenant department's needs and increased risk that a suitable location will not be found timely by the CEO.	**CEO management obtain Space Request Evaluations from tenant departments.**	**3**	**Agree** Target Implementation Date: December 29, 2017 On July 28, 2017, CEO reaffirmed to all staff the requirement that all leases need an SRE. By December 29, 2017, CEO will update the Leasing Manual to clarify when SREs are required.

[1] **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment III for definitions of priority rankings.

FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	**RISK**	**RECOMMENDATION**	**P[1]**	**SUMMARY OF RESPONSE**
9	**Goldenrod Form:** The CEO does not have procedures in place to ensure that staff complete a Goldenrod form as part of the lease acquisition process, which is to notify the County Supervisor of a new lease in their supervisorial district.	▪ Increased risk that the impacted County supervisorial districts are not informed of the tenant department's new leases.	**CEO management prepare Goldenrod forms for all new leases and send the completed forms to the impacted supervisorial districts.**	**3**	**Agree** Target Implementation Date: December 29, 2017 On July 28, 2017, CEO reaffirmed to all staff the requirements regarding Goldenrod forms. By December 29, 2017, CEO will update the Leasing Manual to ensure Goldenrod forms are received and sent to the impacted supervisorial district.
10	**Lease Offer Responses:** The CEO does not have procedures in place to ensure that staff send lease offer responses to companies that submit lease offers.	▪ Increased risk that companies are not informed of the receipt of their offer, and increased risk of confusion during the lease acquisition process.	**CEO management send acknowledgment letters to all lease offerors for new lease searches.**	**3**	**Agree** Target Implementation Date: December 29, 2017 On August 8, 2017 and October 21, 2017, CEO reaffirmed to the appropriate staff the requirement to send acknowledgment letters. By December 29, 2017, CEO will update the Leasing Manual to require acknowledgment letters to be sent to all lease offerors.

[1] **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment III for definitions of priority rankings.

FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	**RISK**	**RECOMMENDATION**	**P[1]**	**SUMMARY OF RESPONSE**
11	**Lease Expirations and Renewals:** The CEO does not have procedures in place to ensure that staff consistently send "18 Month Notices", and follow-up "12 Month Notices", if necessary, to tenant departments with leases that are 18 months away from expiration.	▪ Increased risk that the tenant department and CEO do not start the lease renewal/ acquisition process timely, and increased risk that leases extend beyond the original lease terms without a renewal.	**CEO management ensure staff send an "18 Month Notice" to tenant departments timely, and send a "12 Month Notice" to tenant departments that do not respond to the initial notice within six months.**	**3**	**Agree** Target Implementation Date: December 29, 2017 On August 8, 2017 and October 21, 2017, CEO reaffirmed to the appropriate staff the requirement to send the 18 Month Notice and 12 Month Notice. By December 29, 2017, CEO will update the Leasing Manual to include a 24 month and 18 month notice with appropriate follow-ups and acknowledgment by tenant departments.

[1] **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment III for definitions of priority rankings.

County of Los Angeles
CHIEF EXECUTIVE OFFICE
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http://ceo.lacounty.gov

SACHI A. HAMAI
Chief Executive Officer

November 9, 2017

To: John Naimo
Auditor-Controller

From: Sachi A. Hamai
Chief Executive Officer

RESPONSE TO THE AUDITOR-CONTROLLER'S COUNTY LEASING REVIEW

Attached is the Chief Executive Office's response to the Auditor-Controller's County Leasing Review report. We are in general agreement with the recommendations, and we are implementing them as indicated in our response.

If you have any questions, please contact Dean Lehman, Manager of the Real Estate Division, at (213) 974-4200.

SAH:DPH
DL:JLC:ns

Attachments

RECOMMENDATION 1:

Implement procedures to track lease contract budgets and ensure that staff do not exceed the Board approved budgets, including budgets for tenant improvements, and obtain Board approval for additional costs that exceed existing budgets.

<u>CEO Response to Recommendation 1: Agree</u>

Real Estate Division (RED) has existing practices in place that track contract budget. RED has worked with the Auditor-Controller staff on a standard invoice and reconciliation form which will help keep track of budgets and costs. On July 28, 2017, RED sent a notice to RED Staff to use the standard invoice and reconciliation form as part of the new leasing procedure.

By December 29, 2017, RED will formalize these practices with written procedures. The procedures will include (i) using the standard invoice and reconciliation statement form, for Landlords to submit requests for reimbursable tenant improvement costs which will provide the necessary information and supporting documentation to properly manage the budget, (ii) appropriate management approvals prior to submitting any requests for payment, and (iii) establish milestones to review budgets, and provide early identification of potential overruns and, if necessary, seek timely Board approval. Further, by December 29, 2017, this procedure will also be incorporated into the Leasing Manual.

RECOMMENDATION 2:

Develop a lease and tenant improvement cost fact sheet identifying and delineating all costs and maximums, and include the fact sheet with the Board letter when requesting Board approval.

<u>CEO Response to Recommendation 2: Agree</u>

RED has always included in its Board letter as Attachment B an "Overview of the Proposed Lease Costs." RED amended the Overview sheet to identify the costs and maximums for lease and tenant improvement costs and since August 1, 2017, has implemented use of this revised form for all Board Letters.

RECOMMENDATION 3:

Ensure the amounts billed by contractors for tenant improvements are accurate and that the goods and services were received prior to approving payment.

<u>CEO Response to Recommendation 3: Agree</u>

RED has worked with Auditor Controller staff on the standard invoice and reconciliation form to enhance the current payment process for reimbursable tenant improvement costs. On July 28, 2017, RED formally notified staff to ensure all agents use this form to request payment for Tenant Improvements.

By December 29, 2017, RED will formalize these practices in the written procedures mentioned in Recommendation 1 above.

As an independent cross check to the current process, by December 29, 2017, RED will begin using project managers from ISD or Public Works to work with the leasing agent, space planner and the Landlord to oversee the tenant improvement construction process, and to confirm the amounts are accurate and goods and services were received prior to payment.

RECOMMENDATION 4:

Train and require staff to enter all required lease information into the County Asset Management Property System (CAMPS) and utilize its functions.

<u>CEO Response to Recommendation 4: Agree</u>

On August 8, 2017, RED assigned a specific individual to be responsible for inputting the required lease information into CAMPS. Appointing a single person responsible for inputting the information, rather than allowing all agents to access and input data will provide quality control over the system.

By December 15, 2017, training shall be provided to staff as to how data will be inputted into CAMPS and to ensure the appropriate agent reviews and confirms that all data was inputted correctly. The training will also refresh agents how to utilize CAMPS functions.

RECOMMENDATION 5:

Develop a document retention policy for the RED specifying which documents must be retained, the retention period, and standard filing methods and storage protocols that enable timely and reliable document retrieval.

<u>CEO Response to Recommendation 5: Agree</u>

RED reviewed the current record retention policy for all real estate documents with the record retention manager, the Registrar-Recorder, and on August 9, 2017, reaffirmed the current policy with staff.

As of October 10, 2017, RED introduced a checklist to ensure each agent retains the appropriate project documentation in the files as required by RED procedures. RED Management will be required to confirm the checklist is complete prior to submitting any Board Letter or Lease for approval.

By December 29, 2017, RED will include the record retention policy in its written procedures.

RECOMMENDATION 6:

Develop a centralized electronic system to implement their document retention policy.

CEO Response to Recommendation 6: Agree

The CEO is planning to implement a departmentwide centralized document management system by Fall 2018 utilizing the existing enterprise content management (ECM) repository or procuring a new system that will incorporate the department's information management and retention policies. In preparation for the new system, in September 2017, RED initiated an assessment of the Division's records, including record types, retention schedules, and the organization of its paper and electronic documents. No later than December 31, 2017, RED will institute changes to simplify and standardize the organization of new electronic files.

RECOMMENDATION 7:

Ensure the Property Management Section tracks all incoming property management issues, and the eventual outcome of each issue, and include property management as part of their overall document retention policy.

CEO Response to Recommendation 7: Agree

RED has created a central email address (propertymanagement@ceo.lacounty.gov) as a central depository for all property management requests. Staff has been logging and tracking the information to ensure all property management issues are managed expeditiously and efficiently.

On August 31, 2017, RED notified all department heads regarding the new procedure for requesting assistance with property management issues, including the introduction of the central email address.

By December 29, 2017, RED will ensure property management documents are included as part of the document retention policy referenced in Recommendation No. 5.

RECOMMENDATION 8:

Obtain Space Request Evaluations from tenant departments.

CEO Response to Recommendation 8: Agree

On July 28, 2019, RED reaffirmed to all staff the requirement that all leases need a Space Request Evaluation to begin processing lease requests, except in certain specified circumstances. Space Request Evaluations are included in the checklist referenced in Recommendation No. 5 to ensure the Space Request Evaluation is part of the file when applicable.

By December 29, 2017, RED will review and update the Leasing Manual to clarify when Space Request Evaluations are required.

RECOMMENDATION 9:

Prepare Goldenrod forms for all new leases and sends the completed forms to the impacted supervisorial districts.

CEO Response to Recommendation 9: Agree

On July 28, 2019, RED reaffirmed to all RED staff the requirements regarding Goldenrod forms. Goldenrods are included in the checklist referenced in Recommendation No. 5 to ensure the Goldenrod is part of the file when applicable.

By December 29, 2017, RED will review and update the Leasing Manual to ensure Goldenrod forms are received and sent to the impacted supervisorial district.

RECOMMENDATION 10:

Send acknowledgment letters to all lease offerors for new lease searches.

CEO Response to Recommendation 10: Agree

On August 8, 2017 and again on October 21, 2017, RED reaffirmed to the appropriate staff the requirement to send acknowledgment letters for new lease searches.

By December 29, 2017, RED will review and update the Leasing Manual to require RED sends acknowledgement letters to all lease offerors for new lease searches.

RECOMMENDATION 11:

Ensure staff send an "18 Month Notice" to tenant departments timely, and send a "12 Month Notice" to tenant departments that did not respond to the initial notice within six months.

CEO Response to Recommendation 11: Agree

On August 8, 2017 and again on October 21, 2017, RED reaffirmed to the appropriate staff the requirement to send the 18 Month Notice and 12 Month Notice. RED will improve the current notice process by sending the department a notice 24 months before a lease ends and following up 18 months before a lease ends on a weekly basis to obtain direction on the space. All notices will be sent to the respective Chief Deputy/Admin Deputy of each tenant department.

By December 29, 2017, RED will review and update the Leasing Manual to include the 24 month and 18 month notices with appropriate follow-ups to tenant departments and appropriate acknowledgement by the tenant departments. Any departments that do not respond to the 18 Month notice shall be brought to the attention of the RED Managers and the Director.

PRIORITY RANKING DEFINITIONS

Auditors use professional judgment to assign rankings to recommendations using the criteria and definitions listed below. The purpose of the rankings is to highlight the relative importance of some recommendations over others based on the likelihood of adverse impacts if corrective action is not taken and the seriousness of the adverse impact. Adverse impacts are situations that have or could potentially undermine or hinder the following:

a) The quality of services departments provide to the community,
b) The accuracy and completeness of County books, records, or reports,
c) The safeguarding of County assets,
d) The County's compliance with pertinent rules, regulations, or laws,
e) The achievement of critical programmatic objectives or program outcomes, and/or
f) The cost-effective and efficient use of resources.

Priority 1 Issues

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 90 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 2 Issues

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 3 Issues

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.